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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002452

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STATE FOR EB AND NEA/ELA

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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [SOCI](#) [EPET](#) [JO](#)

SUBJECT: EFFECTS OF JORDAN'S UPCOMING FUEL PRICE HIKE

REF: A. AMMAN 2434

[1](#)B. AMMAN 2404

[1](#)C. AMMAN 1986 AND PREVIOUS

Classified By: Ambassador David Hale for Reasons 1.4 (B, D)

[1](#)1. (SBU) SUMMARY: The one-time fuel price hike for 2006 - the largest jump to date, which is expected in coming days - will bring Jordan's budget to manageable levels by eliminating \$415 million in fuel subsidies (Ref C), but will stretch many household budgets close to the breaking point. Some analysts estimate the additional inflationary increase from the hikes at 2-3%, bringing the total annual inflation rate to as high as 8%. The 43% increase over last fall in the price of heating fuel is likely to spur a public outcry. Already press commentators have lambasted the Bakheet government for poor handling of the hike's introduction in the run-up to the change at the pumps, as well as the government's justifications for this latest increase. Implementation of the planned "social safety net" payment scheme for Jordan's lower income population (Ref C) has been delayed until Mid-April. The opposition Islamic Action Front (IAF) called for a two-hour general strike April 9. Whether or not there is a strong response to the Front's strike call, the Front and other populists will be the political beneficiaries of Jordanians' struggle with economic liberalization. In the meantime, key sectors in the economy will have to adjust and individual belt-tightening will be severe. END SUMMARY.

Inflation Could Go to 8%

[1](#)2. (SBU) Ministry of Finance analysts are putting the inflationary impact of the imminent 25% average increase in fuel prices at a range between 1.0 and 1.5 %, annualized. However, Central Bank of Jordan analysts have said privately that the inflationary impact could be closer to 2.5%, and some financial sector observers say the inflation rate could increase by as much as 3%, bringing the estimated annual inflation rate for 2006 to 8%.

[1](#)3. (U) Press commentary has been limited in advance of the hike but has been generally critical, focusing on three points. First, many rate the government's handling of the hike's introduction poorly because it appeared to ignore the expected secondary effects of the increase. Second, commentators criticize the government's justifications for the imminent hike as inadequate. The final point of the criticism is historical, as commentators review the outcomes of past hikes and are concluding that price hikes generally resulted in economic hardship for ordinary Jordanians.

Fuel Burning Political "Heat"

[1](#)4. (C) As reported ref B, the Islamic Action Front, Jordan's largest political party, called on Jordanians to stage a two-hour general strike April 9 to protest the all-but-certain subsidy cuts. The Front has no organized labor arm, and post's contacts in Jordan's organized labor movement report that the unions will not support the strike. However, the imminent price hikes are so unpopular (even before their implementation) that many Jordanians acting on their own may be inclined to join the work stoppage. PM Marouf Bakheet, recognizing the need to mobilize politically in advance of the subsidy cuts, this week visited Ma'an and Mafrag, two potential trouble spots. Bakheet made the rounds with local and tribal leaders, focusing on face-to-face interactions in projects that aimed to improve the lives of ordinary citizens. If past experience is any guide, Jordan's security services will also discourage participation in the strike. Even if few join the strike April 9, many Jordanians will probably give the Front credit for having stood against the price rises.

Key Sectors Take a Hit...

[1](#)5. (SBU) As diesel prices go up by 43% (Ref C), the added costs to Jordan's extensive commercial transportation

industry (transportation/communications represents 14.2 percent of GDP) will be felt by the average citizen. Jordan has few natural resources, and imports a wide range of consumables and raw inputs for manufacturing. Transporting some \$10.46 billion in imports (81.2 percent of GDP) to population and manufacturing centers in the north from distant Aqaba in the south will contribute to a rise in domestic prices as costs are passed on to consumers in the near term. Jordanians consume over 2 million tons of diesel fuel per year; they burn more diesel than any other fuel.

16. (SBU) Fuel oil used by industries and to generate electricity represents the second largest share of consumption in Jordan, at 1.52 million tons in 2005. The complete liberalization of fuel oil for industries (except for electricity generation) will mean the death knell for some firms used to operating on government subsidies. The expected 65% percent increase in fuel oil for electricity generation still leaves that price well below market prices; it will then be about 80% of the international FOB price. This continued subsidy will allow government regulators to modulate the next power price increase, planned for this year. Note: Electricity has been so under-priced that many Jordanians this past winter purchased electric space heaters as a cheaper alternative to diesel-burning furnaces, which remain the only choices given that a residential natural gas network is still several years away. End Note.

...And Yusef Six-Pack Takes a Wallop

17. (SBU) When consumers purchase heating oil later this year, they will again directly see the very sharp impact on their lives of the 43% increase since last fall in the price of heating fuel. Housing Bank CEO Michel Marto, a former Finance Minister who is familiar with the proposed new price structure, told Econ/C that many Jordanians in lower income brackets will have a hard time keeping their households heated in the coming winter. Although it will be little noticed or remarked upon, those whose pocketbooks will be hardest hit are the middle and upper class in the top 40 percent income brackets, who benefited most from subsidies and likely have diesel-burning central heating units. Reflecting on the popular impact of upcoming increases, Marto noted that there was a time in recent memory when Jordanians could fill a 20-liter gas can with diesel for a little over JD 1.00 (\$1.41); that will now cost JD 6.30 (\$8.90). Marto said the government had talked too much, but had not acted. Questioning the decision to have a one-time hike in prices, he said the government should have stuck to the old schedule of two price rises a year, in March and September. The government plans the final elimination of all oil subsidies in March 2007.

18. (SBU) USAID has been asked by the GOJ to help fund a public awareness campaign to explain to average Jordanians why the increases were considered necessary, and to advertise and better inform the public about the new JD 60 million (\$85 million) "social safety net program" (Ref C) that is set to accompany the looming price hikes. USAID is in preliminary discussions with the Ministry of Finance on this proposed public awareness program.

Pricing Basis Change

19. (SBU) The GoJ is nearer to adopting the "import parity" oil pricing basis, according to the Ministry of Energy's Secretary General. Oil product pricing would be based on

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world crude oil prices (as given for an Aqaba port delivery) plus tariffs, handling costs, and transport to the point of sale. If the price of diesel at the pump near the Zarqa oil refinery is the baseline, for example, then the price of refined diesel transported to southern Ma'an would be higher. This policy would remove another hidden budgetary cost of fixing the price of fuels nationwide.

10. (C) COMMENT: Last year, then-DPM Muasher said the Jordanian public must be prepared to deal with the new "subsidy-free era"; the hemorrhaging budget demanded that type of major fiscal surgery. Now with a budget almost balanced, once the price hikes are in place many average Jordanians may feel they have been dealt a bad hand and that they have been asked to accept too much.

HALE